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ABSTRACT

Designed for the general public and possibly suitable also for high school economics students, this pamphlet discusses the Consumer Leasing Act. The act requires leasing companies to inform consumers of the costs and terms of their contracts, limits any extra payments at the end of a lease, and regulates lease advertising. The pamphlet focuses on personal property leased by an individual for a period of more than four months for personal, family, or household use. General rules for leasing are presented: (1) the law does not cover daily car rentals, apartment or house leases, or business property leases; (2) customers must receive a written statement of all costs involved; (3) customers must be told certain terms of the lease; (4) customers must be told if they may have balloon payments and how they are calculated; (5) customers may obtain an estimate of the property's worth from an independent appraiser; and (6) balloon payments in an open-end lease are limited to no more than three times the average monthly payment. Also included is a look at shopping suggestions, advertising regulations, and penalties for violators. The final section presents a list of names and locations of federal enforcement agencies which deal with questions concerning leasing. (LH)

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TRUTH IN LEASING

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TO THE EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC)."

- *Are you wondering whether leasing your next car would be a good idea?*

- *Would you rather lease than buy furniture for an apartment you'll use for only a year?*

When leasing looks like a good option, there's a Federal law that will help you shop for the best deal. The Consumer Leasing Act requires leasing companies to tell you the facts about the cost and terms of their contracts. You can use the information to compare one lease with another or to compare the cost of leasing with the cost of buying the same property. The law also limits any extra payment you may have to make at the end of a lease and regulates lease advertising.

This pamphlet describes the Consumer Leasing Act and the regulation issued by the Federal Reserve Board to carry it out.

COVERAGE

What leases are covered? The law applies to ***personal property*** leased by an ***individual*** for a period of more than ***four months*** for ***personal, family or household use.*** It covers long-term rentals of cars, furniture, and other personal property.

The law does *not* cover:
- daily car rentals or weekly or monthly rentals that are automatically renewable with each payment;
- leases for apartments or houses —or furniture that comes with a rented apartment;
- property leased to companies or to individuals for business use.

COSTS

What about costs? Before you agree to a lease, the law requires that you get a written statement of its **costs,** including:
- the amount of any advance payment, such as a security deposit;
- the number, the amount and the dates your regular payments are due, as well as the total amount of those payments; and
- the amount you must pay for license, registration and taxes, and for any other fees, such as delivery charges.

TERMS

What about terms of the lease? You must also be told certain ***terms*** of the lease, including:

- what kind of insurance you need;
- any express warranty on the property;
- who is responsible for maintaining and servicing the property, and any standards for wear and tear (which must be reasonable) set by the leasing company;
- any penalty for default or late payment;
- how you or the leasing company may cancel the lease and the charges for doing so; and
- whether or not you can buy the property and, if you can, when and at what price.

OPEN END LEASES

What are open end leases and balloon payments? One decision that will affect leasing costs and terms is whether you choose an "open end" (or "finance") or "closed end" lease. In an open end lease you run the risk of owing extra money depending on the value of the property when you return it. This payment is often called a "balloon payment." For example, when you sign a three-year open end car lease, the leasing company may estimate that the car will be worth $2,000 after three years of normal use. If the car is worth only $1,500 when you return it, you may have to pay a $500 balloon payment.

In a closed end lease, you are not responsible for the value of the property when you return it and will not have to make a balloon payment. As a result, closed end leases usually have higher monthly payments than open end leases.

You should know that in an open end lease:
- The leasing company must tell you that you may have a balloon payment and how it is calculated.

BALLOON PAYMENTS

- At the end of the lease you have the right to obtain an estimate of the property's worth from an independent appraiser. Both parties must abide by the estimate.

Limits on balloon payments. You should also know that the law ***limits*** a balloon payment in an open end lease to ***no more than three times the average monthly payment***—unless you agree to make a higher payment or you have used the property more than average (for example, if you put more than average mileage on a car). The leasing company may also seek a larger payment by going to court. If it goes to court, the company has the burden of proving that its original estimate of the value of the property, although wrong, was reasonable and made in good faith. The company must pay your attorney's fees in such a lawsuit whether or not it wins.

SHOPPING

How do I shop for a lease? First, decide whether you want to buy with cash, buy on credit, or lease. When making your decision, be sure to take into account such expenses as the cost of insurance, maintenance and special fees.

To help you compare the cost of buying on credit with the cost of open end leasing, you must be told the total amount you are responsible for under the lease, the value of the property at the beginning of the lease, and the difference between the two. For example, a three-year open end car lease might show:

36 monthly payments of $125	**$4,500**
+ Estimated value of car at end of lease	**2,000**
Amount you are responsible for under lease	**$6,500**
− Value of car at beginning of lease	**5,800**
Difference	**$ 700**

TO FIND OUT MORE

PENALTIES

ADVERTISING

You could compare this "difference" of $700 with the finance charge you would pay if you bought the car on credit.

If you decide to lease, shop around for the best price and terms. Compare the costs and advantages of open end and closed end leases, and look at such options as whether the leasing company will pay for repairs and maintenance.

What about advertising? The law also regulates the advertising of leases. It says that if a leasing company advertises the amount or number of payments or that any or no downpayment is required, it must also mention several other important terms, including the total of regular payments, your responsibilities at the end of the lease, and whether or not you may purchase the property. This is to make sure you get enough information from the advertisement to understand the offer and to compare it with others.

What are the penalties? You as an individual may sue a leasing company if it fails to give you the required information or does so improperly. You may sue for 25 per cent of the total of the monthly payments (but not less than $100 or more than $1,000) plus any actual damages. If an advertisement violates the law, you may sue the leasing company for your actual damages. In any successful lawsuit, you are also entitled to court costs and reasonable attorney's fees. The law also provides criminal penalties for intentional violations.

To find out more. . . A number of Federal agencies are responsible for enforcing the Consumer Leasing Act. If you have any questions about the law in connection with a lease transaction with a financial institution, you may write to the nearest Federal Reserve Bank or to the Board of Governors of the Federal Reserve System, Washington, D.C. 20551. Be sure to identify the name and location of the financial

institution so that your letter can be brought to the attention of the appropriate enforcement agency—the Federal Reserve Board (for State-chartered member banks), the Comptroller of the Currency (for national banks), the Federal Deposit Insurance Corporation (for non-member insured banks), or the Federal Home Loan Bank Board (for federally-chartered savings and loans).

The Federal Trade Commission enforces the law for almost all leasing companies other than financial institution. Questions or complaints can be sent to the nearest Federal Trade Commission Regional Office, or, if they concern national companies, to: Federal Trade Commission, Consumer Leasing, Washington, D.C. 20580. The Commission does not represent individual consumers in private disputes, but information from consumers about their experiences and concerns is vital to its enforcement of the Consumer Leasing Act.

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